

**Deloitte &
Touche**



**FEDERAL FINANCIAL INSTITUTIONS
EXAMINATION COUNCIL**

**Financial Statements for the Years Ended
December 31, 1999 and 1998, and
Independent Auditors' Reports**



INDEPENDENT AUDITORS' REPORT

To the Federal Financial Institutions
Examination Council

We have audited the accompanying balance sheets of the Federal Financial Institutions Examination Council (the Council) as of December 31, 1999 and 1998, and the related statements of revenues and expenses and changes in fund balance, and of cash flows for the years then ended. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Council as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2000, on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

February 18, 2000

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

BALANCE SHEETS

<u>ASSETS</u>	As of December 31,	
	<u>1999</u>	<u>1998</u>
CURRENT ASSETS		
Cash	\$689,393	\$319,844
Accounts receivable from member organizations	431,539	724,021
Other accounts receivable	317,553	194,449
Prepaid expenses	0	25,319
Total current assets	<u>1,438,485</u>	<u>1,263,633</u>
FURNITURE AND EQUIPMENT		
Furniture and equipment, at cost	273,849	257,091
Less accumulated depreciation	<u>253,624</u>	<u>237,470</u>
Net furniture and equipment	<u>20,225</u>	<u>19,621</u>
Total assets	<u><u>\$1,458,710</u></u>	<u><u>\$1,283,254</u></u>
 <u>LIABILITIES AND FUND BALANCE</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities to member organizations	\$495,354	\$901,303
Other accounts payable and accrued liabilities	131,328	69,225
Accrued annual leave	<u>48,684</u>	<u>48,625</u>
Total current liabilities	675,366	1,019,153
DEFERRED RENT (note 5)	<u>114,036</u>	<u>68,457</u>
FUND BALANCE	<u>669,308</u>	<u>195,644</u>
Total liabilities and fund balance	<u><u>\$1,458,710</u></u>	<u><u>\$1,283,254</u></u>

See notes to financial statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

**STATEMENTS OF REVENUES AND EXPENSES
AND CHANGES IN FUND BALANCE**

	For the years ended December 31,	
	1999	1998
REVENUES		
Assessments on member organizations	\$1,634,000	\$1,244,000
Tuition	1,657,257	1,365,656
Other revenue (Note 4)	2,809,341	2,814,718
Total revenues	6,100,598	5,424,374
EXPENSES		
Salaries and related benefits	1,339,517	1,263,700
Data processing	2,972,811	2,922,678
Rental of office space	586,705	728,452
Professional fees	258,375	106,070
Travel	101,409	112,242
Rental and maintenance of office equipment	77,209	74,758
Printing	71,738	94,805
Administration fees	62,400	54,199
Other seminar expenses	53,111	85,251
Office and other supplies	47,001	46,968
Depreciation and amortization	16,154	32,106
Postage	15,280	12,881
Books and subscriptions	8,753	3,453
Telephone	5,481	5,998
Miscellaneous	10,990	36,070
Total expenses	5,626,934	5,579,631
REVENUES OVER (UNDER) EXPENSES	473,664	(155,257)
FUND BALANCE, Beginning of year	195,644	350,901
FUND BALANCE, End of year	\$669,308	\$195,644

See notes to financial statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

STATEMENTS OF CASH FLOWS

	For the years ended December 31,	
	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenues over (under) expenses	\$473,664	(\$155,257)
Adjustments to reconcile revenues over (under) expenses to net cash provided by (used in) operating activities:		
Depreciation and amortization	16,154	32,106
(Increase) decrease in accounts receivable from member organizations	292,482	41,269
(Increase) decrease in other accounts receivable	(123,104)	(86,494)
(Increase) decrease in prepaid expenses	25,319	(25,319)
Increase (decrease) in accounts payable and accrued liabilities to member organizations	(405,949)	61,546
Increase (decrease) in other accounts payable and accrued liabilities	62,103	(43,623)
Increase (decrease) in accrued annual leave	59	(10,394)
Increase (decrease) in deferred rent	45,579	19,415
Net cash provided by (used in) operating activities	386,307	(166,751)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(16,758)	0
Net cash used in investing activities	(16,758)	0
NET INCREASE (DECREASE) IN CASH	369,549	(166,751)
CASH BALANCE, Beginning of year	319,844	486,595
CASH BALANCE, End of year	<u>\$689,393</u>	<u>\$319,844</u>

See notes to financial statements.

**FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

(1) ORGANIZATION AND PURPOSE

The Federal Financial Institutions Examination Council (the "Council") was established under Title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978. The purpose of the Council is to prescribe uniform principles and standards for the federal examination of financial institutions and to make recommendations to promote uniformity in the supervision of these financial institutions. The five agencies which are represented on the Council, referred to hereafter as member organizations, are as follows:

Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
National Credit Union Administration
Office of the Comptroller of the Currency
Office of Thrift Supervision

The Appraisal Subcommittee of the Council was created pursuant to Public Law 101-73, Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The functions of the Appraisal Subcommittee are related to the certification and licensing of individuals who perform appraisals in connection with federally related real estate transactions. Members of the Appraisal Subcommittee consist of the designees of the heads of those agencies which comprise the Council and the designee of the head of the Department of Housing and Urban Development. Although it is a subcommittee of the Council, the Appraisal Subcommittee maintains separate financial records and administrative processes. The Council's financial statements do not include financial data for the Appraisal Subcommittee other than that presented in note 4.

(2) SIGNIFICANT ACCOUNTING POLICIES

Revenues and Expenses - Assessments made on member organizations for operating expenses and additions to property are calculated based on expected cash needs. Assessments, other revenues, and operating expenses are recorded on the accrual basis of accounting.

Furniture and Equipment - Furniture and equipment is recorded at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from four to ten years. Upon the sale or other disposition of a depreciable asset, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is recognized.

Leasehold Improvements - Leasehold improvements are amortized on a straight-line basis over the term of the related lease or the estimated useful life of the improvements.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

(3) TRANSACTIONS WITH MEMBER ORGANIZATIONS

	1999	1998
The five member organizations are each assessed one-fifth of the expected cash needs based on the annual operating budget. Annual assessment for each member organization was	\$ 326,800	\$ 248,800

The Council provides seminars in the Washington area and at regional locations throughout the country for member organization examiners and other agencies. The Council received tuition payments from member organizations in the amount of	1,526,707	1,172,456
--	-----------	-----------

The Board of Governors of the Federal Reserve System provided administrative support services to the Council at a cost of	62,400	54,199
---	--------	--------

Member organizations provided office space, data processing and printing services to the Council. The Council paid member organizations	3,424,234	3,525,945
---	-----------	-----------

The Council coordinates the production and distribution of the Uniform Bank Performance Reports (UBPR) through the Federal Deposit Insurance Corporation (FDIC). The Council is reimbursed for the direct cost of the operating expenses it incurs for this project.

Council employees are paid through the payroll systems of member organizations. Salaries and fringe benefits, including retirement benefit plan contributions disbursed on behalf of the Council are reimbursed in full to these organizations. The Council does not have any post-retirement or post-employment benefit liabilities since Council employees are included in the plans of the member organizations.

Member organizations are not reimbursed for the costs of personnel who serve as Council members and on the various task forces and committees of the Council. The value of these contributed services has not been included in the accompanying financial statements.

(4) OTHER REVENUE

	1999	1998
Home Mortgage Disclosure Act	\$ 1,645,563	\$ 1,517,598
Uniform Bank Performance Report	267,656	266,824
Appraisal Subcommittee	190,155	156,594
Rental	-	158,965
Community Reinvestment Act	705,864	714,696
Miscellaneous	103	41
	\$ 2,809,341	\$ 2,814,718

**FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

	1999	1998
<u>Home Mortgage Disclosure Act (HMDA)</u>		
The Council produces and distributes reports under the Home Mortgage Disclosure Act (HMDA). The Council received the following from member organizations	\$ 1,108,326	\$ 1,051,492
The Council received the following from the Department of Housing and Urban Development (HUD) to fund HUD's participation in the HMDA project	306,584	279,077
The Council received the following from the Mortgage Insurance Companies of America for performing HMDA related work for them	185,741	153,138
The balance of the HMDA revenue for 1999 and 1998 was received from sales to the public	44,912	33,891
<u>Uniform Bank Performance Report (UBPR)</u>		
The Council coordinated and provided certain administrative support to the UBPR project. The Council received the following for operating expenses incurred in support of the UBPR project	267,656	266,824
<u>Appraisal Subcommittee</u>		
The Council provided space and certain administrative support to the Appraisal Subcommittee. The Council received the following from the Appraisal Subcommittee for these services	190,155	156,594
<u>Rental Space</u>		
The Council provided space to the Board of Governors of the Federal Reserve System (Board). The Council received the following in rent from the Board.	-	158,965
<u>Community Reinvestment Act</u>		
In 1995, development work began to prepare an information system to assist financial institutions with certain Community Reinvestment Act (CRA) requirements. The first full year of operations was 1996. The Council received the following from participating member agencies for operating expenses incurred in support of the CRA project.	705,864	714,696

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

(5) DEFERRED RENT

In 1992 and 1998, the Council entered into leases for office space. These leases contain rent abatements and scheduled rent increases, which, in accordance with generally accepted accounting principles, must be considered in determining the annual rent expense to be recognized by the Council. The deferred rent represents the difference between the actual lease payments and the rent expense recognized.

(6) COMMITMENTS

The Council entered into operating leases to secure office and classroom space for periods ranging from two to ten years. Minimum future rental commitments under those operating leases having an initial or remaining noncancellable lease term in excess of one year at December 31, 1999 are as follows:

2000	\$ 306,331
2001	313,281
2002	320,232
2003	330,555
2004	347,624
After 2004	1,364,844
	<u>\$ 2,982,867</u>

Rental expenses under these operating leases and the operating lease that expired in 1999 were \$572,210 and \$710,610 in 1999 and 1998, respectively.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND COMPLIANCE BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Federal Financial Institutions
Examination Council

We have audited the financial statements of the Federal Financial Institutions Examination Council (the Council) as of and for the year ended December 31, 1999, and have issued our report thereon dated February 18, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Members and management of the Council and the Inspector General of the Board of Governors of the Federal Reserve System, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

February 18, 2000